



**EDFUND**

Financial Statements

September 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

# **EDFUND**

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**KPMG LLP**  
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## **Independent Auditors' Report**

The Board of Directors  
EDFUND  
Rancho Cordova, California:

We have audited the accompanying basic financial statements of EDFUND, a component unit of the California Student Aid Commission, as of and for the years ended September 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of EDFUND's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EDFUND's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EDFUND as of September 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 2 through 5 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

December 22, 2004

## EDFUND

### Management's Discussion and Analysis

September 30, 2004 and 2003

The following Management's Discussion and Analysis (MD&A) of EDFUND activities and performance provides the reader with an introduction and overview of the basic financial statements of EDFUND for the fiscal years ended September 30, 2004 and 2003. The information contained in this MD&A should be read in conjunction with the basic financial statements following this section.

#### Financial Highlights

- In 2003-04 EDFUND administered the guarantee for over \$5.7 billion in new nonconsolidation student loans to borrowers serving 1,299 colleges and universities, a 29 percent increase compared to the \$4.4 billion in nonconsolidation loans guaranteed in 2002-03 serving 1,252 colleges and universities.
- In 2003-04 total loan volume including consolidation loans equaled \$7.1 billion an increase of 28 percent compared to 2002-03. Consolidation loan volume increased 24 percent from \$1.1 billion in 2002-03 to \$1.4 billion in 2003-04.
- Claims in the amount of \$335 million were paid to loan holders on defaulted loans in 2003-04, a 4 percent increase compared to \$321 million in 2002-03.
- EDFUND contributed almost \$3 million in grants to 64 academic institutions in fiscal year 2003-04 as part of the EDSHARE program, a 23 percent increase compared to \$2.4 million funded in 2002-03. These grants were made in support of default prevention and borrower education initiatives developed at these schools.
- Total net assets increased by \$233,781 to \$26.9 million in 2003-04. This increase is attributable to interest income earned on working capital.

#### Overview of Financial Statements

This report consists of four parts: *The Independent Auditors' Report*, *Management's Discussion and Analysis (this section)*, *Basic Financial Statements* (Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows), and the *Notes to the Financial Statements*, which explain in further detail information contained in the financial statements.

EDFUND, a nonprofit public benefit corporation, was created on January 2, 1997, as an auxiliary organization of the California Student Aid Commission (Commission) pursuant to Section 69522(a) of the California Education Code. The creation of EDFUND was authorized by state legislation that empowered the Commission to establish a nonprofit auxiliary to carry out all activities associated with its participation in the Federal Family Education Loan (FFEL) Program. EDFUND is a proprietary component unit of the Commission, and operates under terms and conditions set forth in an annual operating agreement between the two organizations.

In administering the loan program on behalf of the Commission, EDFUND tracks cash activity related to lender claim payments and subsequent collection of defaulted loans. In addition to this activity, EDFUND's bank accounts are also used to deposit funds associated with administrative fees paid by the United States Education Department (ED). These cash transactions are verified, recorded, and transferred to or reimbursed from the Commission Loan Program Federal or Operating funds. As a result of this arrangement, the EDFUND balance sheets and statements of cash flows reflect substantial fluidity from one accounting period to another.

## EDFUND

### Management's Discussion and Analysis

September 30, 2004 and 2003

EDFUND's statements of revenues, expenses, and changes in net assets reflect expenses incurred by EDFUND on behalf of the Commission, and the subsequent reimbursement called program service fees. The nature of the operating agreement between the Commission and EDFUND calls for a full reimbursement of all such costs incurred by EDFUND. As a result, program service fees and operating expenses will represent the same amounts after a standard accounting period close. Also specified in the operating agreement is the process where EDFUND initially invests in capital asset purchases and is reimbursed by the Commission as the asset is used in the administration of the Loan Program.

#### Financial Analysis

The following table provides a summary of EDFUND's balance sheets at September 30, 2004, 2003, and 2002.

Assets	2004	2003	2002
Cash and cash equivalents	\$ 44,129,233	55,135,929	59,046,731
Other assets	21,835,443	9,215,820	5,774,117
Capital assets	2,553,390	2,965,935	2,520,037
Total assets	<u>\$ 68,518,066</u>	<u>67,317,684</u>	<u>67,340,885</u>
<b>Liabilities and Net Assets</b>			
Current liabilities	\$ 38,979,088	38,673,077	39,493,366
Long-term liabilities	2,672,877	2,012,287	1,489,640
Total liabilities	<u>41,651,965</u>	<u>40,685,364</u>	<u>40,983,006</u>
Net assets:			
Invested in capital assets	2,553,390	2,965,935	2,520,037
Unrestricted	24,312,711	23,666,385	23,837,842
Total net assets	<u>26,866,101</u>	<u>26,632,320</u>	<u>26,357,879</u>
Total liabilities and net assets	<u>\$ 68,518,066</u>	<u>67,317,684</u>	<u>67,340,885</u>

- Total assets exceeded liabilities by a total of \$26.9 million at the end of the fiscal year, as compared to \$26.6 million in 2003 and \$26.4 million in 2002. The increases in each year can be attributed to interest income on cash and cash equivalents. Approximately \$2.5 million of net assets are invested in capital assets in 2003-04.
- Cash and cash equivalents decreased \$11 million or 20 percent in 2003-04 and decreased almost \$4 million or 6.6 percent in 2002-03. The two primary reasons for lower cash balances in 2003-04 are as follows: EDFUND made significant vendor payments at year-end compared to the prior fiscal year and also had a substantial receivable of \$19 million from the Commission's Operating Fund at year-end.
- Other assets increased almost \$13 million in 2003-04 compared to a \$3.4 million increase in 2002-03 primarily due to an increase in receivables from the Commission's Operating Fund. The majority of receivables were related to state grant administrative costs and non-loan program related activities in 2003-04, which were paid by other state funds in prior years.

# EDFUND

## Management's Discussion and Analysis

September 30, 2004 and 2003

- Capital assets decreased 14 percent compared to an almost 18 percent increase in 2002-03 as a result of several technology-oriented assets realizing full depreciation in 2003-04. In addition, 2003-04 acquisitions decreased 32 percent as compared to 2002-03 acquisitions. The majority of new acquisitions in 2002-03 were made at the end of fiscal year, thus affecting the timing of first year depreciation.

Following is a summary of EDFUND's statements of revenues, expenses, and changes in net assets for the years ended September 30, 2004, 2003, and 2002.

	2004	2003	2002
Operating revenues:			
Program service fees	\$ 95,415,357	89,127,696	88,855,669
Total operating revenues	95,415,357	89,127,696	88,855,669
Operating expenses:			
Salaries and benefits	50,632,118	50,785,225	46,581,872
Program grants and awards	12,906,953	2,435,848	1,790,520
Collection agency fees	7,954,069	12,588,794	17,668,384
Consulting and professional fees	6,960,450	7,256,808	7,407,828
Computer expense	3,346,357	2,823,328	2,143,960
Other operating expenses	13,615,410	13,237,693	13,263,105
Total operating expenses	95,415,357	89,127,696	88,855,669
Operating income	—	—	—
Nonoperating revenues (expenses):			
Grant administrative service fees	602,497	—	—
Interest income	233,781	274,441	377,590
Grant administrative costs	(602,497)	—	—
Total nonoperating revenues	233,781	274,441	377,590
Change in net assets	233,781	274,441	377,590
Net assets, beginning of year	26,632,320	26,357,879	25,980,289
Net assets, end of year	\$ 26,866,101	26,632,320	26,357,879

- EDFUND's total operating revenues were \$95.4 million in 2003-04, a \$6.3 million or 7 percent increase from 2002-03. In 2002-03 total operating revenues were \$89.1 million, a slight increase of \$272,027 compared to 2001-02. The increase in program service fees between fiscal years is consistent with overall increases in operating expenses since these fees are primarily reimbursements for these operating expenses.
- In 2003-04 interest income decreased by 15 percent compared to 2002-03. In 2002-03 interest income decreased by 27 percent compared to 2001-02. Both years' decreases are a result of current economic conditions and lower cash balances in EDFUND bank accounts.

## **EDFUND**

### **Management's Discussion and Analysis**

September 30, 2004 and 2003

- Operating expenses for 2003-04 increased \$6.3 million or 7 percent compared to 2002-03.
  - Individually, collection agency fees decreased \$4.6 million as a result of decreased collection revenues from the prior year.
  - Computer expense increased almost 19 percent due to computer maintenance and repairs.
  - Program grants and awards increased by \$10.5 million primarily due to a new student outreach program. The Outreach program, established in 2003-04, provides student outreach over a three-year plan. The program goals are to increase awareness of the Cal Grant entitlement program and to increase student awareness toward success in postsecondary education.
- In 2002-03, operating expenses increased only slightly to \$89.1 million compared to \$88.9 million in 2001-02.
  - Individually, salaries and benefits increased by \$4.2 million as a result of declining turnover and investment in marketing staff.
  - Collection agency fees decreased \$5 million or almost 29 percent, primarily due to significantly shifting the percentage of total collections recovered internally as opposed to collection agencies.
  - Computer expense increased in 2002-03 by 32 percent due to computer maintenance costs associated with the Western States Mentor Program.
  - Program grants and awards increased by 36 percent due to an expansion of the EDSHARE for institutions grant program. The \$2.4 million awarded in 2002-03 supported public awareness and outreach programs aimed at educating students on managing debt and avoiding student loan defaults.

**EDFUND****Balance Sheets**

September 30, 2004 and 2003

<b>Assets</b>	<b>2004</b>	<b>2003</b>
Current assets:		
Cash and cash equivalents (note 3)	\$ 44,129,233	55,135,929
Due from Operating Fund (note 4)	20,200,625	7,315,200
Due from other funds (note 4)	—	341,089
Prepays and other assets	1,634,818	1,559,531
Total current assets	65,964,676	64,351,749
Capital assets, net of accumulated depreciation (note 5)	2,553,390	2,965,935
Total assets	\$ 68,518,066	67,317,684
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 598,927	1,137,007
Due to Federal Fund (note 4)	4,270,321	5,601,752
Accrued payroll	4,615,612	4,447,335
Accrued expenses and other liabilities	9,494,228	7,486,983
Advance payable to the Commission (note 2)	20,000,000	20,000,000
Total current liabilities	38,979,088	38,673,077
Long-term liabilities (note 7)	2,672,877	2,012,287
Total liabilities	41,651,965	40,685,364
Commitments and contingencies (note 6)		
Net assets:		
Invested in capital assets	2,553,390	2,965,935
Unrestricted	24,312,711	23,666,385
Total net assets	26,866,101	26,632,320
Total liabilities and net assets	\$ 68,518,066	67,317,684

See accompanying notes to financial statements.



**EDFUND**

## Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2004 and 2003

	<b>2004</b>	<b>2003</b>
Operating revenues:		
Program service fees	\$ 95,415,357	89,127,696
Total operating revenues	<u>95,415,357</u>	<u>89,127,696</u>
Operating expenses:		
Salaries and benefits	50,632,118	50,785,225
Program grants and awards	12,906,953	2,435,848
Collection agency fees	7,954,069	12,588,794
Consulting and professional fees	6,960,450	7,256,808
Facilities operations and rental expense	3,711,782	3,649,515
Computer expense	3,346,357	2,823,328
Travel expenses	1,940,523	1,674,782
Depreciation expense	1,726,162	1,483,791
Printing expenses	1,508,640	1,777,475
Other operating expenses	<u>4,728,303</u>	<u>4,652,130</u>
Total operating expenses	<u>95,415,357</u>	<u>89,127,696</u>
Operating income	<u>—</u>	<u>—</u>
Nonoperating revenues (expenses):		
Grant administrative service fees	602,497	—
Interest income (note 3)	233,781	274,441
Grant administrative costs	<u>(602,497)</u>	<u>—</u>
Total nonoperating revenues	<u>233,781</u>	<u>274,441</u>
Change in net assets	<u>233,781</u>	<u>274,441</u>
Net assets, beginning of year	<u>26,632,320</u>	<u>26,357,879</u>
Net assets, end of year	<u><u>\$ 26,866,101</u></u>	<u><u>26,632,320</u></u>

See accompanying notes to financial statements.

# EDFUND

## Statements of Cash Flows

Years ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 83,255,753	88,980,107
Cash paid to suppliers and vendors	(52,817,219)	(48,141,491)
Cash paid to employees for services	(38,646,784)	(39,214,000)
Net cash (used in) provided by operating activities	<u>(8,208,250)</u>	<u>1,624,616</u>
Cash flows from noncapital financial activities:		
Purchase of defaulted loans	(381,174,478)	(363,258,221)
Reimbursements from the Commission of defaulted loans	381,174,478	363,258,221
Receipts from ED	433,735,879	341,019,716
Reimbursements to the Commission of amounts received from ED	(434,888,022)	(342,813,906)
Cash receipts from repurchases	11,836,603	14,026,193
Cash remitted to the Commission for repurchases	(11,836,603)	(14,026,193)
Cash receipts from collections	103,448,984	156,431,528
Cash remitted to the Commission for collections	(104,013,004)	(158,510,578)
Net cash used in noncapital financing activities	<u>(1,716,163)</u>	<u>(3,873,240)</u>
Cash flows used in capital and related financing activities:		
Purchases of capital assets	<u>(1,316,064)</u>	<u>(1,936,619)</u>
Cash flows from investing activities:		
Interest received	408,020	621,820
Reimbursements to the Commission of interest received	(174,239)	(347,379)
Net cash provided by investing activities	<u>233,781</u>	<u>274,441</u>
Net decrease in cash and cash equivalents	<u>(11,006,696)</u>	<u>(3,910,802)</u>
Cash and cash equivalents, beginning of year	<u>55,135,929</u>	<u>59,046,731</u>
Cash and cash equivalents, end of year	<u>\$ 44,129,233</u>	<u>55,135,929</u>
Reconciliation of operating income to net cash (used in) provided by operating activities:		
Operating income	\$ —	—
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Depreciation expense	1,726,162	1,483,791
Loss on disposition of capital assets	2,447	6,930
Change in assets and liabilities:		
Due from the Commission	(12,159,604)	(147,589)
Prepays and other assets	(75,287)	(678,441)
Accounts payable	(538,080)	(207,803)
Accrued payroll	168,277	24,038
Accrued expenses and other liabilities	2,007,245	621,043
Post-retirement benefits	660,590	522,647
Net cash (used in) provided by operating activities	<u>\$ (8,208,250)</u>	<u>1,624,616</u>

See accompanying notes to financial statements.

## **EDFUND**

### **Notes to Financial Statements**

September 30, 2004 and 2003

#### **(1) Organization and Operations**

EDFUND, a nonprofit public benefit corporation, was created on January 2, 1997, as an auxiliary organization of the California Student Aid Commission (Commission) pursuant to Section 69522(a) of the California Education Code. Additionally, EDFUND is a component unit of the Commission.

EDFUND was created to administer, operate, and provide services essential to the Commission's participation in the Federal Family Education Loan (FFEL) Program. Most of the expenses incurred for administering the FFEL Program are recorded in EDFUND's financial records while other expenses incurred for administering the FFEL Program are recorded in financial statements of the Commission. In order to fully understand the nature of and the expenses associated with administering the FFEL Program, the EDFUND financial statements should be read in conjunction with the financial statements of the Commission's Federal Student Loan Reserve Fund and Student Loan Operating Fund as of June 30, 2004 and for the year then ended.

EDFUND operates under the terms and conditions set forth in an annual operating agreement between the Commission and EDFUND. The operating agreement is renewed annually on October 1. Under the agreement, EDFUND is reimbursed for all expenses incurred on behalf of the Commission in administering the FFEL Program.

In the event that the annual operating agreement should terminate and in the absence of a subsequent agreement, EDFUND's assets become the property of the Commission.

#### **(2) Summary of Significant Accounting Policies**

##### **(a) *Basis of Accounting***

The accounts of EDFUND are maintained in accordance with the principles of fund accounting. Fund accounting is a system under which resources are classified for accounting and reporting purposes into funds established according to their purpose.

EDFUND is a proprietary component unit of the Commission Operating Fund. Proprietary component units use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow. The financial statements of EDFUND have been prepared in accordance with generally accepted accounting principles, including all applicable statements of the Governmental Accounting Standards Board (GASB), and all statements of the Financial Accounting Standards Board through November 30, 1989.

##### **(b) *Tax-Exempt Status***

EDFUND qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of California law and, accordingly, is not subject to federal or state income taxes.

##### **(c) *Capital Assets***

Capital assets are stated at cost and depreciated using the straight-line method over their estimated useful lives of three to five years (term of lease as to leasehold improvements).

## **EDFUND**

### Notes to Financial Statements

September 30, 2004 and 2003

**(d) Revenue Recognition**

Program service fee revenue represents an amount equal to the expenses incurred by EDFUND in assisting the Commission in administering the FFEL Program. Program service fee revenue is recognized when the related expense is incurred.

Operating revenues and expenses result from exchange transactions associated with the principal activities of EDFUND. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues and expenses, such as investment earnings and grant administrative service fees and costs, result from nonexchange transactions and/or revenues and expenses not earned nor incurred in administering the FFEL Program.

**(e) Salaries**

EDFUND has two types of employees: employees directly hired by EDFUND and civil service employees of the Commission who have been assigned to work for EDFUND (Assigned Employees). Salary expense includes the salaries, wages, and related benefits of both EDFUND employees and the Assigned Employees. The salaries, wages, and related benefits of the Assigned Employees are paid by the Commission and EDFUND reimburses the Commission for those amounts.

**(f) Related Party Transactions**

On January 2, 1997 the Commission advanced \$20,000,000 to EDFUND for operating capital. The terms of the advance have not been clearly defined, and therefore currently determined to be due on demand. As of September 30, 2004 no payments were required. Interest income earned on the unused portion of the advance is reimbursed to the Commission.

As described more fully in note 1, the majority of EDFUND's revenues are earned under the operating agreement with the Commission. EDFUND is contingently liable on an operating lease provided for the benefit of the Commission (note 6).

As described more fully in note 4, all expenses incurred as a function of performing FFEL services for the Commission or any amounts paid on behalf of the Commission by EDFUND, are fully reimbursable from the Commission.

**(g) Concentrations of Credit Risks**

Financial instruments that potentially subject EDFUND to concentrations of credit risk consist primarily of cash and cash equivalents. EDFUND maintains its cash in bank deposits with one financial institution. It maintains its cash equivalents in money market funds that obtain investment advice from a wholly owned subsidiary of the same financial institution. The balances are generally not insured or guaranteed.

## EDFUND

### Notes to Financial Statements

September 30, 2004 and 2003

**(h) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**(3) Cash and Cash Equivalents**

EDFUND maintains cash deposits in money market accounts. Interest earned on the accounts is allocated between EDFUND and the Commission. Interest earned on unused monies of the operating advance is due to the Commission and EDFUND retains the remaining interest earned.

At September 30, 2004 and 2003, the carrying value of the cash and cash equivalents approximated its market value because of its short-term maturity. Interest earned for the year ended September 30, 2004 totaled \$408,020 of which \$174,239 was allocated to the Commission. Interest earned for the year ended September 30, 2003 totaled \$603,014 of which \$328,573 was allocated to the Commission.

**(4) Due from the Commission**

All expenses incurred as a function of performing FFEL services for the Commission or any amounts paid on behalf of the Commission by EDFUND, are fully reimbursable from the Commission. Conversely, all monies received by EDFUND on behalf of the Commission, such as reinsurance from the United States Department of Education (ED) on defaulted loan purchases or recoveries on defaulted loans, are due to the Commission.

The net amount due from the Commission at September 30, is comprised of the following:

	<u>2004</u>	<u>2003</u>
Amounts due from the Commission:		
Due from Operating Fund	\$ 20,200,625	7,315,200
Due from other funds	—	341,089
Amounts due to the Commission:		
Due to Federal Fund	<u>(4,270,321)</u>	<u>(5,601,752)</u>
Due from the Commission	<u>\$ 15,930,304</u>	<u>2,054,537</u>

# EDFUND

## Notes to Financial Statements

September 30, 2004 and 2003

### (5) Capital Assets

Capital asset activity for the year ended September 30, 2004 is as follows:

	<b>Beginning balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending balance</b>
Vehicles	\$ 58,186	—	—	58,186
Computer equipment	2,986,346	411,659	(33,632)	3,364,373
Computer software	2,196,612	680,636	—	2,877,248
Equipment, furniture, and fixtures	514,834	214,796	(3,562)	726,068
Leasehold improvements	227,396	8,973	—	236,369
	<u>5,983,374</u>	<u>1,316,064</u>	<u>(37,194)</u>	<u>7,262,244</u>
Less accumulated depreciation:				
Vehicles	(6,102)	(11,437)	—	(17,539)
Computer equipment	(1,369,774)	(877,161)	32,609	(2,214,326)
Computer software	(1,406,038)	(663,792)	—	(2,069,830)
Equipment, furniture, and fixtures	(199,346)	(122,260)	2,138	(319,468)
Leasehold improvements	(36,179)	(51,512)	—	(87,691)
	<u>(3,017,439)</u>	<u>(1,726,162)</u>	<u>34,747</u>	<u>(4,708,854)</u>
Capital assets, net	\$ <u>2,965,935</u>	<u>(410,098)</u>	<u>(2,447)</u>	<u>2,553,390</u>

# EDFUND

## Notes to Financial Statements

September 30, 2004 and 2003

Capital asset activity for the year ended September 30, 2003 is as follows:

	<b>Beginning balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending balance</b>
Vehicles	\$ 38,664	19,522	—	58,186
Computer equipment	1,613,299	1,382,154	(9,107)	2,986,346
Computer software	1,851,697	344,915	—	2,196,612
Equipment, furniture, and fixtures	441,808	73,220	(194)	514,834
Leasehold improvements	110,588	116,808	—	227,396
	<u>4,056,056</u>	<u>1,936,619</u>	<u>(9,301)</u>	<u>5,983,374</u>
Less accumulated depreciation:				
Vehicles	(444)	(5,658)	—	(6,102)
Computer equipment	(678,043)	(694,071)	2,340	(1,369,774)
Computer software	(740,327)	(665,711)	—	(1,406,038)
Equipment, furniture, and fixtures	(101,542)	(97,835)	31	(199,346)
Leasehold improvements	(15,663)	(20,516)	—	(36,179)
	<u>(1,536,019)</u>	<u>(1,483,791)</u>	<u>2,371</u>	<u>(3,017,439)</u>
Capital assets, net	<u>\$ 2,520,037</u>	<u>452,828</u>	<u>(6,930)</u>	<u>2,965,935</u>

## (6) Commitments and Contingencies

### *Operating Leases*

EDFUND maintains various operating leases for its main and regional offices. Rental expense for the years ended September 30, 2004 and 2003 was \$2,979,368 and \$2,910,736, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2004, are as follows:

Fiscal year ending September 30:	
2005	\$ 3,215,072
2006	3,228,818
2007	3,169,087
2008	648,426
2009	148,755
Thereafter	—
	<u>\$ 10,410,158</u>

In May 2001, EDFUND entered into a noncancelable operating lease for the Commission's office facility that expires in 2008. The annual minimum rental payments are included in the schedule above. The Commission reimburses EDFUND for all costs associated with the lease agreement.

## EDFUND

### Notes to Financial Statements

September 30, 2004 and 2003

The noncancelable operating lease for EDFUND's main offices expires in 2007 and provides for a five-year renewal option. In the event of default by EDFUND or the termination of the operating agreement between the Commission and EDFUND, the leases will be assumed by the Commission for the remainder of the lease terms.

#### (7) Retirement Benefits

##### (a) *EDFUND Employees*

Effective July 1, 1997, EDFUND established the EDFUND Employees' Retirement Plan (Plan), a defined contribution retirement savings plan for those employees hired by EDFUND. EDFUND makes a base contribution for each EDFUND employee based on the employee's salary and age. In addition, all regular full-time and part-time employees over the age of 18 and working more than 20 hours per week may contribute on a pre-tax basis from 1 percent to 90 percent of their annual compensation up to the Internal Revenue Service limits. EDFUND contributes a percentage match of 100 percent of employee contributions up to 4 percent of salary.

The Plan is administered by Fidelity Investments. Amendments to the Plan are subject to approval and ratification by EDFUND's board of directors.

Total covered payroll for the EDFUND employees was \$39,266,222 and \$39,510,543 for the years ended September 30, 2004 and 2003, respectively. Total employer contributions and employee contributions were \$2,460,102 and \$2,461,919, respectively, for the year ended September 30, 2004, and \$1,921,930 and \$2,352,506, respectively, for the year ended September 30, 2003.

In addition to defined contribution plan benefits, EDFUND also provides postretirement benefits through the EDFUND Postretirement Medical and Life Plan. The Plan provides for medical, dental, vision and life insurance benefits to employees based on age upon retirement and length of service. The postretirement healthcare benefits are funded on a pay-as-you-go basis and the related expenses and liabilities are calculated using actuarial-based accrual method. EDFUND uses a September 30 measurement date and assumed that the annual discount rate is 6% and 7.5% at the end of the measurement periods September 30, 2004 and 2003, respectively. EDFUND recognized expense of \$510,548 and \$387,302 for the years ended September 30, 2004 and 2003, respectively. At September 30, 2004, there were five retirees eligible to receive benefits. At September 30, 2003, there were four retirees eligible to receive benefits. Included in long-term liabilities is the EDFUND Postretirement Medical and Life Plan of \$2,391,590 and \$1,881,042 for the years ended September 30, 2004 and 2003, respectively. These determinations were computed in accordance with Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.



## **EDFUND**

### **Notes to Financial Statements**

September 30, 2004 and 2003

#### **(b) *Assigned Employees***

All assigned employees are eligible to participate in the California Public Employees' Retirement System (PERS). PERS, a multiple-employer defined benefit retirement plan, is administered by a Board of Administration composed of individuals (1) elected by PERS membership; (2) appointed by elected state of California officials; and (3) elected state of California officials. PERS provides retirement, disability, and death benefits. Such benefits are based on the employee's years of service, age, and final compensation. PERS issues a publicly available financial report that includes financial statements and required supplementary information, which may be obtained by writing to California Public Employees' Retirement System, 400 P Street, Sacramento, CA 94229-2701.

Assigned employees may participate in PERS at one of two levels; first-tier participants contribute a portion of their salaries to a retirement fund, while second-tier employees do not make contributions. First-tier employees vest after five years of service and may receive retirement benefits at age 50. Second-tier employees vest after ten years of service and may receive retirement benefits at age 55. As of September 30, 2004, there were sixty-two employees classified as first tier and seven employees classified as second tier supporting direct FFEL Program activities. State records relating to pension benefit obligations and net assets available for benefits are not separately available for EDFUND.

Total PERS expense and funded contributions for the Assigned Employees was \$545,874 and \$572,236 for the years ended September 30, 2004 and 2003, respectively. All contributions were paid as of September 30, 2004.

#### **(8) *Deferred Compensation***

EDFUND offers certain employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to select employees permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan are placed in trust for participants and their beneficiaries.